

FISCAL NOTE

HB 1920 - SB 2057

March 16, 2005

SUMMARY OF BILL: Reduces the state sales tax on food and food ingredients from six percent (6%) to five percent (5%), effective January 1, 2006.

ESTIMATED FISCAL IMPACT:

**Decrease State Revenues - \$32,500,000 FY06
\$65,100,000 FY07 and thereafter**

**Decrease Local Govt. Revenues - \$700,000 FY06
\$1,400,000 FY07 and thereafter**

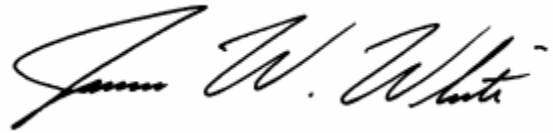
Assumptions:

- Tax base on food is approximately \$7.0 billion per year.
- Annual state sales tax collections on food are approximately \$420.0 million at prevailing rates.
- A 5% state rate on food would generate approximately \$350.0 million per year in state sales tax revenue (\$7.0 billion X 5% state rate = \$350.0 million).
- Initial decrease in state revenues resulting from tax rate decrease is estimated at \$70.0 million per year (\$420.0 million - \$350.0 million = \$70.0 million).
- Initial decrease in local government revenues resulting from the loss of state-shared tax revenue is estimated at \$2.97 million.
- Reducing taxes by \$70.0 million creates additional disposable income for Tennessee consumers.
- 50% spent on other sales-taxable items (\$35.0 million).
- Economic multiplier of 2.0.
- Increase of tax base due to food tax rate reduction is estimated at \$70.0 million (\$70.0 million reduction in taxes X 50% consumption X 2.0 multiplier = \$70.0 million) per year.
- Increase to state revenues from additional tax base is estimated at \$4.9 million (\$70.0 million X 7% state rate = \$4.9 million) per year.
- Increase to local government revenues from additional tax base is estimated at \$1.57 million (\$70.0 million X 2.25% local option rate = \$1.57 million) per year.

- Net impact to state revenues is estimated as a decrease in revenues of \$65.1 million (- \$70.0 million initial reduction + \$4.9 million recovered = - \$65.1 million net decrease) per year.
- Net impact to local government revenues is estimated as a decrease in revenues of \$1.4 million (- \$2.97 million initial decrease + \$1.57 million recovered = - \$1.4 million net decrease) per year.
- Estimates are pro-rated for first fiscal year due to effective date.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, reading "James W. White". The signature is fluid and cursive, with the first name "James" written in a smaller, more compact script than the last name "White".

James W. White, Executive Director